

Stocks advance as AI fears continue to ease

- **SNAPSHOT:** Equities up, Treasuries down, Crude mixed, Dollar down, Gold up
- **REAR VIEW:** Trump state of the union speech sees muted reaction; OPEC+ sources say Sunday meeting to consider oil output increase for April; EIA crude stocks build more than expected; Soft US 5yr note auction; Japan's government nominates two reflationist academics to join the BoJ; Hotter-than-expected Aussie inflation; Zimbabwe suspends of all raw mineral and lithium exports immediately.
- **COMING UP:** **Data:** EZ Consumer Confidence Final (Feb), US Jobless Claims, Japanese Tokyo CPI (Feb), Retail Sales (Jan). **Events:** BoK Policy Announcement. **Speakers:** BoJ's Takata; ECB's Lagarde; BoE's Lombardelli; Fed's Bowman. **Supply:** Italy, US. **Earnings:** CoreWeave, Intuit, Vistra Energy, Autodesk, Dell, Baidu, Warner Bros Discovery, Allianz, Deutsche Telecom, Munich Re, Schneider Electric, AXA, Engie, Saint-Gobain.

MARKET WRAP

Equities continued to advance higher on Wednesday as tailwinds from Tuesday around easing AI disruption fears extended. The Nasdaq outperformed with tech and financials leading the gains. Tech was buoyed by gains in software, recently battered by AI disruption, while gains in NVIDIA (NVDA) also supported it ahead of earnings after-hours. The gains in equities supported overall risk sentiment, with Aussie and Kiwi outperforming, but hot Australian CPI led to clear AUD outperformance vs other cyclical currencies. Havens generally lagged with the Yen, Dollar and Franc underperforming. The Yen was sold after the Japanese government nominated two reflationist academics to join the BoJ, reaffirming Takaichi's pro-stimulus stance, which led to a steepening of the JGB curve. The pressure in long-end JGBs and positive risk sentiment weighed on Treasuries, while the 2-year FRN and 5-year auctions were soft. Crude prices were relatively flat as eyes turn to US/Iran meetings on Thursday, while OPEC sources suggested delegates will be considering a resumption of output hikes in April. In the US, the EIA Inventory Data saw a chunky build, in line with the private inventory report last night. Gold and Silver saw further gains while Bitcoin staged a recovery, supporting crypto-exposed stocks. Lithium as well as related stocks, gained following Zimbabwe's suspension of all raw mineral and lithium exports immediately.

US

FED's BARKIN (2027 voter): Clear sense that the job market has loosened, and hard to calibrate what's going on with labour supply. Barkin added that inflation data has been consistently above target, and he is hopeful of it retreating to 2%, but wants data to show this clearly. Barkin echoed familiar rhetoric that monetary policy is currently well-positioned for risks.

FED's SCHMID (2028 Voter): Schmid spoke on the balance sheet, noting the main focus of the Fed balance sheet debate is about the size of reserves. However, he is concerned about the duration of it. He said it will take years for the Fed to run off its mortgage bond holdings, adding they will never return to a Fed balance sheet size seen before the financial crisis. He acknowledged that the Fed's T-bill reserve management has been relatively modest. On the economy, he said the jobs market is in a pretty good place, but has work to do on the inflation side.

FED's COLLINS (2028 voter): Fed is quite likely to hold current rates for some time, policy is mildly restrictive and may be close to neutral. Collins added that the recent job data has been promising, and while the job market softened last year, it wasn't soft. On the inflationary footing, the Boston Fed President wants more confidence that it is easing, and her baseline view is that inflation will wane later this year. Collins concluded the latest tariff news hasn't changed the outlook much.

FED's MUSALEM (2028 voter): Said inflation is almost a full percentage point above target, and the labour market is cooling in an orderly way. Musalem's base case outlook is that the economy grows at or above 2%; and that the job market isn't vulnerable to an increase in layoffs, nor will inflation stay higher for longer, but both could happen. The St. Louis Fed President describes financial conditions as accommodative, and policy is now at neutral in real terms, which is balancing appropriately. He believes that half of the excess inflation is from tariffs, which will fade as the year progresses. Additionally, the policy government shutdown may have biased CPI downward, and could stay that way through April; PCE inflation is a better gauge. Bringing inflation down to target will help with consumption and growth, and could lower the 10yr rate.

FIXED INCOME

T-NOTE FUTURES (H6) SETTLED 4 TICKS LOWER AT 113-05+

T-notes settle lower across the curve after being pressured by JGBs, risk sentiment and soft auctions. At settlement, 2-year +1.5bps at 3.471%, 3-year +2.3bps at 3.484%, 5-year +2.3bps at 3.619%, 7-year +1.9bps at 3.812%, 10-year +1.7bps at 4.050%, 20-year +0.8bps at 4.638%, 30-year +0.5bps at 4.694%.

THE DAY: T-notes saw gradual pressure overnight seemingly tracking long-end JGBs lower as traders question PM Takaichi's reflationist policies with the JGB curve steepening on stronger growth prospects. It was reported overnight that the Japanese government had recommended two academics to the BoJ board, who SBI Securities describes as "staunch reflationists". The

pressure in JGBs weighed on USTs slightly overnight, but the downside began to pare during the US session in quiet trade amid a lack of data. Attention turned to the 5-year auction, which ultimately was relatively soft, following the soft 2-year note auction on Tuesday, and a soft 2-year FRN during Wednesday's session. Fed speak meanwhile saw Schmid speak on the balance sheet, noting the main focus of the balance sheet debate is about the size of reserves, while he said he is concerned about the duration of the Fed balance sheet. Away from fixed income, focus largely turns to NVIDIA (NVDA) earnings after-hours to dictate risk sentiment.

SUPPLY

Bills

- US sold 17-week bills at a high rate of 3.590%, B/C 3.20x.
- US to sell USD 105bln in 4-week bills and USD 95bln in 8-week bills on February 26th, to settle to March 3rd

Notes

- Overall, another relatively soft auction. The US sold USD 70bln of 5-year notes at a high yield 3.615%, lower than the prior high yield of 3.823% and tailing the when issued by 0.7bps, a larger tail when compared to the prior and six-auction-average of 0.3bps. The bid-to-cover of 2.32x, a touch below the prior 2.34x and 2.36x average. Direct demand fell to 24.7% from 28.5%, below the 28.5% average, while indirect demand rose to 62.5% from 60.7%, above the 61.4% average. This left dealers with 12.8% of supply, above the 10.8% prior and 10.1% average.
- US sold USD 28bln of 2-year FRNs at a high discount margin of 0.099%, B/C 2.01x
- US to sell USD 44bln of 7-year notes on February 26th; to settle March 2nd

STIRS/OPERATIONS

- **Market Implied Fed Rate Cut Pricing: March 0bps (prev. 0bps), April 2.7bps (prev. 2.7bps), June 10.8bps (prev. 12bps), December 52.3bps (prev. 54.8bps).**
- NY Fed RRP op demand at 1.16bln (prev. 0.92bln) across 7 counterparties (prev. 17) on February 25th
- SOFR at 3.67% (prev. 3.66%), volumes at USD 3.239tln (prev. USD 3.197tln) on February 24th
- EFRF at 3.64% (prev. 3.64%), volumes at USD 106bln (prev. USD 97bln) on February 24th
- Treasury Buyback: (Liquidity Support, 1 to 10-year TIPS, max. USD 750mln): Buys USD 745mln of 2.291bln offered, O/C 3.08x; accepts 12 of 28 eligible issues

CRUDE

WTI (J6) SETTLED USD 0.21 LOWER AT USD 65.42/BBL; BRENT (J6) SETTLED USD 0.08 HIGHER AT USD 70.85/BBL

Crude prices were mixed on Wednesday, with Brent marginally firmer while WTI was lower as chunky inventory builds in the US kept WTI from rising. On geopolitics, attention turns to talks between Iran and US in Geneva, which take place from tomorrow, while the Iranian Foreign Minister continues to state that if the US attacks Iran, any US bases in the region will be legitimate targets. As we enter the talks, Energy Secretary Witkoff said any nuclear deal should last indefinitely. However, the US imposed sanctions on over 30 entities that support Iranian oil and weapons sales today, increasing pressure on the regime ahead of talks on Thursday. The focus of the day, however, was on OPEC reports ahead of the 1st March meeting and inventory data. The weekly EIA inventory report saw huge builds; crude stocks surged to a build of 16mln bbls from the prior draw of 9mln, well above the 1.8mln forecast, but perhaps not too surprising given the private inventory report Tuesday night, which forecasted a build of 11mln bbls. Gasoline stocks drew, while Distillate stocks were little changed. Meanwhile, on OPEC, sources report that some OPEC+ delegates expect the group to agree to resume modest production increases this Sunday regarding its April policy decision, and apparently, a 137k BPD oil output increase will be considered.

EQUITIES

CLOSES: SPX +0.81% at 6,946, NDX +1.41% at 25,329, DJI +0.63% at 49,482, RUT +0.41% at 2,663

SECTORS: Industrials -0.79%, Real Estate -0.69%, Consumer Staples -0.58%, Materials -0.43%, Energy -0.42%, Health -0.02%, Utilities +0.36%, Consumer Discretionary +0.48%, Communication Services +0.97%, Financials +1.68%, Technology +1.79%.

EUROPEAN CLOSES: Euro Stoxx 50 +0.91% at 6,172, Dax 40 +0.74% at 25,171, FTSE 100 +1.18% at 10,806, CAC 40 +0.47% at 8,559, FTSE MIB +1.11% at 47,170, IBEX 35 +1.49% at 18,461, PSI +0.29% at 9,296, SMI -0.10% at 13,983, AEX +1.00% at 1,030

STOCK SPECIFICS:

- **Oracle (ORCL)** upgraded at Oppenheimer to 'Outperform' from 'Perform'
- **IBM (IBM)** upgraded at UBS to 'Neutral' from 'Sell'
- **Warner Bros Discovery (WBD)** said Paramount Skydance (PSKY) offer could be 'Superior' to Netflix (NFLX).
- **Kroger (KR)** downgraded at Wells Fargo to 'Equal Weight' from 'Overweight'
- **Lowe's (LOW):** FY guidance light
- **HP Inc. (HPQ):** Weak guidance as it expects volatility in memory chips to persist even into next year & forecasts a slump in its PC shipments
- **Workday (WDAY):** Weak next Q & FY outlook
- **First Solar (FSLR):** Profit light w/ dismal guidance
- **Circle Internet Group (CRCL):** EPS and revenue beat

- **Axon Enterprise (AXON)**: Surprise quarter profit alongside revenue beat and strong FY26 revenue growth outlook
- **Oddity Tech (ODD)**: Expects Q1 revenue to decline 30% Y/Y
- **Joby (JOBY)** partnering with Uber (UBER) to launch Uber Air, allowing users to book Joby's all-electric air taxis directly in the Uber app.
- White House Official says **Amazon (AMZN)**, **Google (GOOGL)**, and **Oracle (ORCL)** are to sign data centre agreements, Fox News reports.
- **Google (GOOGL)** will reportedly test changes to its search engine results following EU antitrust charges, will apply initially to searches for lodgings, according to reports
- China's Deepseek withholds upcoming model from Nvidia (NVDA) and AMD (AMD), according to reports.

FX

The Dollar was broadly weaker against peers on Wednesday, with Trump's State of the Union speech sparking little reaction as new policies were absent. US equities continued to bounce as tech sentiment improved ahead of Nvidia earnings after the close, likely building risk-taking in higher beta FX. Tier 1 US data was absent today, and Fed speak contained little on upcoming policy decisions. US yields were firmer across the curve, albeit seemingly tracking with a move higher in JBG yields on reinflationary views of new BoJ members, yet the USD failed to follow. DXY moved lower to ~ 97.70 from 97.85

G10 strength vs USD was led by **AUD**, which found upside on the hotter-than-expected inflation report. Y/Y printed 3.8% (exp. 3.7%) and M/M was 0.4% (exp. 0.3%). AUD/USD peaked at 0.7124, nearing multi-year highs of 0.7147, with the rally in precious metals adding support. Other cyclical currencies outperformed, **NZD/USD** broke back above 0.60, and **Cable** climbed to ~1.3553 from 1.3485.

JPY was weighed by PM Takaichi's nominations of Ayano Sato and Toichiro Asada to the BoJ policy board, individuals viewed as reflationary and dovish. As such, short-end JBG yields were lower on the prospects of looser policy in the near term, while it further emphasised Takaichi's distaste towards further rate hikes, while the long-end yields rose on longer-term growth outlooks. Gradual weakness continues amid concerns over US-Japan relations in response to a Nikkei report that Japan's FTC conducted an on-site inspection of Microsoft (MSFT) on suspicion of violating the Antimonopoly Act. USD/JPY peaked at 156.82 before paring to ~156.37.

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newsquawk.com · +44 20 3582 2778 · info@newsquawk.com